

**BEFORE
THE ILLINOIS COMMERCE COMMISSION**

Commonwealth Edison Company	:	Docket No. 00-0259
	:	
Petition for expedited approval of	:	
implementation of a market-based	:	
alternative tariff, to become effective on	:	
or before May 1, 2000, pursuant to	:	
Article IX and Section 16-112 of the	:	
Public Utilities Act	:	
	:	
Central Illinois Public Service Company	:	Docket No. 00-0395
Union Electric Company	:	
	:	
Petition for approval of revisions to	:	
market value tariff, Rider MV	:	
	:	
Illinois Power Company	:	Docket No. 00-0461
	:	
Proposed new Rider MVI and	:	
Revisions to Rider TC	:	CONSOLIDATED

**REPLY BRIEF ON EXCEPTIONS
OF THE AMEREN COMPANIES**

The Ameren Companies (AmerenCIPS and AmerenUE) submit this reply brief regarding the exceptions to the HEPO¹ submitted by ComEd, IP, IIEC, the AG and AES NewEnergy (“AES”).

Reply to ComEd and IP

ComEd and IP, like the Ameren Companies, submitted exceptions regarding the HEPO’s proposal concerning electronic exchange data monitoring and reporting requirements. The Ameren Companies do not object to the proposed language submitted by either ComEd or IP.

¹ Unless otherwise noted, the abbreviations used herein shall be the same as those used in the Ameren Companies’ Brief on Exceptions.

Reply to IIEC

1. Sunset Provisions

IIEC recommends advancing the sunset provisions so that the MVI tariffs would cease to be effective in May, 2003, rather than May, 2004. IIEC also proposes that the utilities be required to file new MVI tariffs by January 1, 2002, rather than October 1, 2002.

IIEC's proposal would render the sunset provisions meaningless. The sunset provisions afford a means of revising the MVI tariffs to reflect lessons learned in the administration of those tariffs. Having successfully dragged the MVI process out nearly to the beginning of the 2001 summer, with little time left for customers to make fully informed choices, IIEC would then have the utilities file new tariffs in January, 2002. The utilities would have only one summer's and a few shoulder months' experience at the time that they prepared their filings. Accordingly, we expect that the filings would look virtually identical to the tariffs now in place. There simply would not be enough time or volume to produce any other result.

2. ICE

IIEC also proposing adopting its witness's proposed "standards" for adding new data sources, and requiring utilities to meet with "interested parties" to discuss new data sources. These proposals should be rejected. The record simply does not contain detail sufficient to establish standards in this case. The broad categories of information identified by IIEC's witness do not constitute "standards" themselves; rather, they are, at best, descriptive of the types of data that might be used to develop standards.

Further, while the Ameren Companies have been, and continue to be, willing to discuss potentially contested matters with customers and providers, it is not appropriate

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impose on the Ameren Companies a vague requirement to “meet with interested parties beforehand.” It is not that the Ameren Companies will not, or do not wish to, do so. The Ameren Companies’ concern is that they do not wish to litigate in a future case whether any filing they make satisfied this requirement. Since the Ameren Companies will be required, under the terms of the HEPO, to make a filing with the Commission any time that they wish to change or add data sources, “interested parties” will have an opportunity to make their views known.

Reply to the AES NewEnergy

1. “Optionality”

AES NewEnergy continues its mission to arbitrarily adjust market values upward to capture what it terms “optionality,” while at the same time tarring any other party that does not agree with its vague, undefined proposal as either uninformed or deceptive, or both. The Ameren Companies agree that optionality can be one component, albeit relatively minor, of an overall pricing strategy. The Ameren Companies, however, are not aware of any accurate means of making the infinitesimal adjustment to MVI values to reflect the type of risk to which AES NewEnergy refers, and AES NewEnergy itself (despite AES’s stature as one of the world’s largest and most sophisticated energy companies) has yet to propose any accurate, sound means of adjusting the MVI values to reflect optionality.

One aspect of AES NewEnergy’s proposal that is clearly a “non-starter” is the proposal to require the Ameren Companies to submit their proprietary risk evaluation model to the Staff for use in the administration of the Ameren Companies’ tariffs, as well as the tariffs of ComEd and IP. This proposal, which would not produce a market value any more accurate than a market value developed without an optionality “adder”, is

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unacceptable to the Ameren Companies, and they will not file an MVI tariff which requires them to submit any portion of their proprietary pricing model.

Regardless, there are separate, independent bases on which to reject AES NewEnergy's approach. For all of the following reasons, AES NewEnergy's exceptions in this regard should be rejected.

AES NewEnergy accuses the utilities of manipulating information and refusing to provide witnesses and information that is solely in their possession. The Ameren Companies presented a witness, Mr. Mark Eacret, who is thoroughly familiar with Ameren's pricing methodology, and who explained that, in the context of Ameren's overall pricing model, Ameren does assess optionality. That witness also explained, however, that the Ameren optionality adjustment (to use AES New Energy's term) is one component of far broader pricing model, is specific to that pricing model and is not compatible with the MVI approach. Tr. 146 (Eacret)

In this regard, the Ameren witness explained that the MVI tariff approach already accounts for much of what AES NewEnergy terms optionality. Tr. 154-55 (Eacret) He explained that, if an adjustment were to be made, it should only capture the tiny increment not captured by the MVI methodology. *Id.*

The Ameren method would not be limited to the tiny increment to which Mr. Eacret referred. The Ameren model is a pricing model different from the MVI methodology. The component of that model that addresses the risk referred to by AES NewEnergy measures more than the tiny increment not reflected in the MVI model. AES NewEnergy's alternatives to the Ameren model (and there have been many) are not any better. AES NewEnergy has never explained how Black-Scholes would be used in

this context. Ameren raised questions in that regard in the first part of this proceeding; AES NewEnergy's response was to seek reopening so that the utilities could, in effect, answer the questions. Their answers were that they do not use Black-Scholes, and in the case of ComEd and IP, they do not use any other model.

AES NewEnergy also proposed the "Monte Carlo" method, which, as both ComEd and Ameren explained, is a little like (and just as helpful as) saying we should use math. Monte Carlo is not a specific method; rather, it involves the development of mathematical models. Tr. 141 (Eacret) Instructing the utilities to develop mathematical models in the next few weeks is neither feasible nor warranted.

As Mr. Eacret explained, the lack of an optionality adjustment does not mean that the MVI results do not reflect market prices. Simply because Ameren includes an optionality-type risk assessment in its overall pricing methodology does not mean that Ameren can insist on recovery of an optionality risk component in the prices at which it sells. As Mr. Eacret explained, the market sets the prices, and simply because Ameren perceives a risk or cost does not mean that a buyer will pay it, especially when at least two local utilities (ComEd and IP) apparently do not even recognize the risk in their pricing assessments. Ameren Ex. 8.0, p.2.

Accordingly, there is no basis for concluding that an optionality adjustment is required, nor is there any basis for requiring Ameren to submit components of its pricing model to the Staff as a condition of filing an MVI tariff.

2. Off-peak Energy Prices

AES NewEnergy continues to press for an off-peak adjustment. In its exceptions, AES NewEnergy claims that evidence that it has never seen was insufficient, and that

AES NewEnergy should have been allowed to introduce additional evidence on reopening – even though AES NewEnergy never asked for that relief when it requested reopening. Enough is enough. The HEPO properly rejects AES NewEnergy’s position.

Response to the AG

The AG proposes that the HEPO be modified to permit the submission of revisions to the MVI tariffs in the event that agreement is reached with respect such revisions in the ongoing workshop process. The Ameren Companies believe that such a revision is unnecessary. The sunset provisions do not prohibit a utility from proposing changes to its tariff any time prior to expiration date of its tariff, and the Companies oppose any modification to the HEPO that would imply that the Ameren Companies are so prohibited.

Respectfully submitted,

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